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Annual Report 1963

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HOOKER CHEMICAL CORPORATION

Directors

F. LEONARD BRYANT, *Chairman*
ROBERT W. ENGLEHART
WERNER P. GULLANDER
R. WOLCOTT HOOKER
CHARLES C. HORNBOSTEL
HAL A. KROEGER
CLINTON S. LUTKINS
THOMAS E. MOFFITT
ROBERT H. STRANGE
ROBERT E. WILKIN
THOMAS F. WILLERS

Officers

F. LEONARD BRYANT, *Chairman and Chief Executive Officer*
THOMAS F. WILLERS, *President*
JAMES G. BALDWIN, *Vice President*
JOHN S. COEY, *Vice President*
ROBERT W. ENGLEHART, *Vice President*
CHARLES C. HORNBOSTEL, *Vice President—Finance*
ROBERT F. SCHULTZ, *Vice President*
JAY C. SEARER, *Vice President*
ROGER C. SONNEMANN, *Vice President—Industrial and Public Relations*
CLARENCE A. STIEGMAN, *Vice President—Research and Development*
ANSLEY WILCOX 2ND, *Vice President and Secretary*
EDWARD W. MATHIAS, *Treasurer*
A. RICHARD PERRY, *Controller*
DOUGLAS MCL. MORE, *General Counsel*

Transfer Agent

Chemical Bank New York Trust Company,
New York, N. Y.

Registrar

The Chase Manhattan Bank,
New York, N. Y.

Preferred & Common Stock Listings

New York Stock Exchange

1963

Annual Report

HOOKER CHEMICAL
CORPORATION

666 Fifth Avenue New York New York 10019

| | | |
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The Annual Meeting of the Stockholders of the Company will be held at 10:30 A.M., Eastern Standard Time, on Wednesday, March 18, 1964, at the office of Chemical Bank New York Trust Company, Madison Avenue at 59th Street, New York, N.Y. We hope you will be able to attend.



Thomas F. Willers, President (*standing*)
and F. Leonard Bryant, Chairman.

Financial Highlights

| | 1963 | 1962 |
|---|-------------------|-----------|
| | — (000 Omitted) — | |
| Net Sales | \$182,741 | \$179,176 |
| Income before Income Taxes | 31,469 | 30,021 |
| Federal and Foreign Income Taxes | 15,604 | 14,955 |
| Net Income | 15,865 | 15,066 |
| Cash Dividends Paid | | |
| Preferred Stock | 434 | 378 |
| Common Stock | 8,419 | 7,879 |
| Working Capital | 58,719 | 53,940 |
| Capital Invested in New and Improved Facilities | 15,145 | 15,812 |
| Depreciation | 12,151 | 11,261 |

| | | |
|---------------------|-------------------------------|--------|
| | — Per Share of Common Stock — | |
| Earnings | \$1.88 | \$1.79 |
| Dividends: | | |
| Cash | \$1.025 | \$1.00 |
| Stock | 2% | 2% |
| Cash Flow | \$3.98 | \$3.67 |

To Our Shareholders:

This has been a year of growth and progress. The sales total of \$182,741,000, 2% above 1962, set a new record for the second consecutive year. Net earnings increased 5% and reached an all time level of \$15,865,000, equal to \$1.88 per common share compared with \$1.79 last year, based on the total current shares outstanding.

The record sales stemmed primarily from a sustained demand for our products in a good economy, although the price index for our chemicals was lower. The higher earnings resulted from increased volume, better operating efficiencies, technological improvements, and unrelenting attention to cost reduction throughout the Company.

In recognition of continuing profit improvement, the Board of Directors increased the quarterly common dividend by 10% in the fourth quarter of the year. In addition, a 2% stock dividend, paid in December, 1963, was declared for the second consecutive year.

Supporting our plans for growth during the past year were the completion of an activated carbon plant in Mexico and a jointly-owned phenol plant in Argentina; expansion of facilities to produce phosphoric acid in Dallas, Texas, chlorine-caustic in Montague, Michigan, and sodium chlorate in Columbus, Mississippi; construction of substantial modern warehousing facilities for the Durez Plastics Division; and enlarged laboratories in Detroit, Michigan, to improve service to customers of the Parker Rust Proof Division.

Also during 1963 we announced appropriations for a new multi-million dollar fine chemical facility in Niagara Falls, a second chlor-alkali plant in British Columbia, a new dicalcium phosphate plant in Iowa, and an expansion of our ammonium perchlorate installation in Mississippi, the latter to supply the rapidly growing space and missile program. All are scheduled for completion in 1964.

These were some of the 1963 milestones marking the progress of a long-range plan that began with a significant alteration in the nature of our business less than a decade ago. A series of profitable acquisitions, followed by a high level of capital expenditures and fruitful research activities, has allowed your management to reduce its dependence on heavy chemicals, particularly in the chlor-alkali category.

Our product line has been broadened to include plastics and resins, phosphates, agricultural chemicals, metal treating materials and diverse specialty products. Equally important, Hooker has strengthened its competitive position in its traditional markets by expanding basic productive capacity and reducing manufacturing costs.

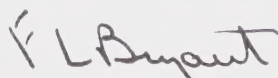
In keeping with objectives to broaden our base and diversify into related product lines, the Company expects to acquire a 90% interest in National Phosphate Corporation early in 1964. National Phosphate is an important producer of the rapidly growing fertilizer, diammonium phosphate. This acquisition is expected to add materially to our sales and earnings now and in the future, and to provide a springboard for further growth in the plant foods industry.

Results of our planning to date are real and encouraging: every Hooker plant and division is profitable; the improvement in our basic raw material position has been completed on schedule; our marketing program has been revamped in keeping with customer needs and competitive pressures; product lines have been streamlined and expanded; and the gate to a more profitable future has been opened wider through a better balanced research effort, directed and controlled by corporate objectives.

Recent progress throughout the Company holds promise for the future. The chemicals we manufacture, new and old, are expected to find wider applications in an ever-increasing number of industries. The demonstrated capabilities of the Company are now approaching maximum potential and give encouraging evidence that 1964 will be a year of accelerated growth and progress.

Your Company enters the new year with confidence in the basic strength of the American economy, in the support of its shareholders, and in the loyal effort of its employees.

For the Board of Directors,



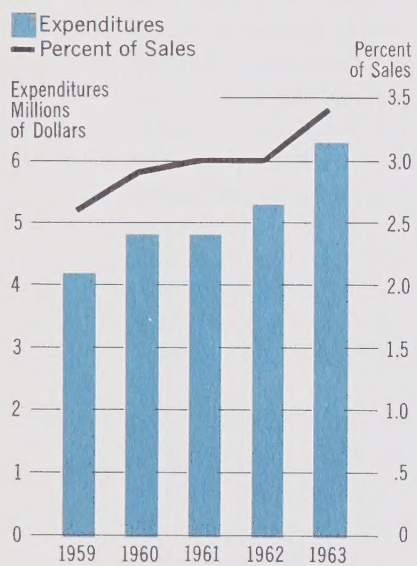
Chairman



President

January 28, 1964

Research and Development Expenditures



Review of Operations

Research

CLARENCE A. STIEGMAN, *Vice President — Research and Development*

The Corporate Research and Development program for 1963 maintained a good balance between exploratory and application research, on the one hand, and research directed toward the improvement of existing products and processes on the other.

During the year, considerable attention was devoted to the general area of fire retardance and significant progress was made with Dechlorane^(R) as an additive to plastics and with THPC^(R) in treating paper and wood.

Agricultural chemicals were of major importance in our 1963 program. Several promising new insecticides are being screened extensively, while a number of new herbicides, fungicides and nematocides are in the earlier stages of evaluation. Progress was also made in the area of controlling plant diseases.

Polymer research similarly received substantial emphasis. Our search for new monomers, new molding compounds and chemical resistant coatings resulted in novel crosslinking agents for some of the newer elastomers and polymers, a new epoxy resin modifier, and polyurethane and polyester coatings. Organophosphorus research has produced a series of interesting polymer intermediates and a variety of new structures with unique properties. Work has continued on new chlorinated solvents as well as on novel paints, lacquers and other surface coating systems.

Commercial processes, developed in Research for six new products, will be incorporated in the recently approved fine chemicals plant of the Eastern Chemical Division. In addition, two major facilities were replaced with new processes of our own design, resulting in significantly lower operating costs.

The new semi-commercial facility has operated at capacity throughout the year turning out agricultural chemicals, chemical intermediates, fire retardant additives and resin stabilizers.

Other important projects included the chemical brightening of aluminum, improvement of water-treating chemicals, process work on ammonium perchlorate for rocket propellant use, and improved products for unhairing hides.

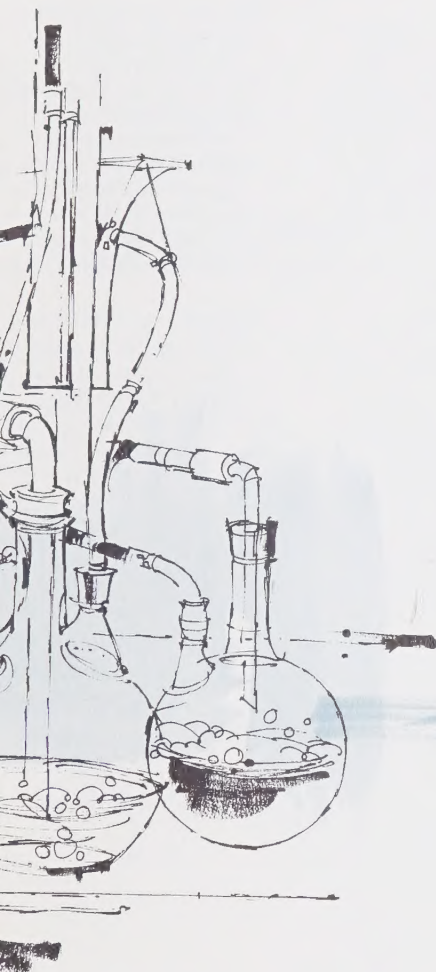
This widely diversified program promises an increased flow of important new Hooker products in the years ahead.

Eastern Chemical Division

JOHN S. COEY, *General Manager*

The continued high level of business activity during the past year resulted in sales for the division that were slightly above 1962. Increased price competition in some basic chemicals was cushioned somewhat by cost-saving improvements in our manufacturing facilities.

At Niagara Falls, our new thionyl chloride plant completed its first full year of operation with satisfactory results. A new plant for the production of fused grades of caustic potash also came into production and is performing well.



Approved during the year was the construction of a new hydrogen chloride recovery unit which will improve recovery efficiency, reduce costs and provide better quality and customer service. In addition, an expanded benzoyl chloride plant was authorized in order to meet the growing demand for this chemical. Both of these plants will be completed in 1964.

Agricultural products in the division sold well during 1963. A rapid increase in demand supported our decision to build a new multi-purpose facility which is expected to be completed later this year. In addition to agricultural chemicals with an immediate market demand, this same commercial plant is expected to be used to produce a continuous flow of new market development products from Research.

We are continuing to emphasize chemicals for flame-proofing. One of our major new products, THPC, and a patented system using THPC for flame-proofing cotton and rayon fabrics, is now being used commercially by the textile industry. It is expected that this material will find wide usage in textiles supplied to hospitals, institutions and hotels as well as for military garments, work clothing and tent canvases. Another chemical, Dechlorane, has proven successful for making thermoplastic resins fire resistant.

At our Montague plant, the new hydrogen chloride recovery system operated for its first full year and produced outstanding results. A small expansion was authorized and completed to increase chlorine and caustic soda production. Also, modernization of the rectifiers improved the over-all efficiency of plant operations.

The division currently is engineering and will install shortly new manufacturing facilities to produce a family of chlorobenzotrifluoride products at Niagara Falls. These products have substantial potential sales volumes as intermediates in the manufacture of several very promising herbicides, bactericides, and related chemicals.

The sale of chemicals to the pulp and paper industry is one of Hooker's major business areas. Our new pulp and paper laboratory at Niagara Falls and expanded sales and technical service representation in the field enabled us to provide improved pulp-bleaching technology to our customers and to strengthen our sales position in these chemicals.

Western Chemical Division

CHARLES Y. CAIN, *General Manager*

Following the trend of recent years, the Western Chemical Division achieved a record sales volume in 1963. All product lines of the division showed growth in comparison with 1962.

The continuing expansion of the pulp and paper industry, particularly in western Canada, resulted in enlarged requirements for chlorine and caustic soda. The sizeable increased demand for these pulp-bleaching and purification

Eastern

Product Areas

Pulp and Paper Chemicals
Industrial Chemicals
and Intermediates
Insecticides and Weed Killers
Flameproofing Chemicals
and Processes
Intermediates for
Agricultural Chemicals
Metal Cleaning and
Finishing Chemicals
Dry Cleaning Chemicals

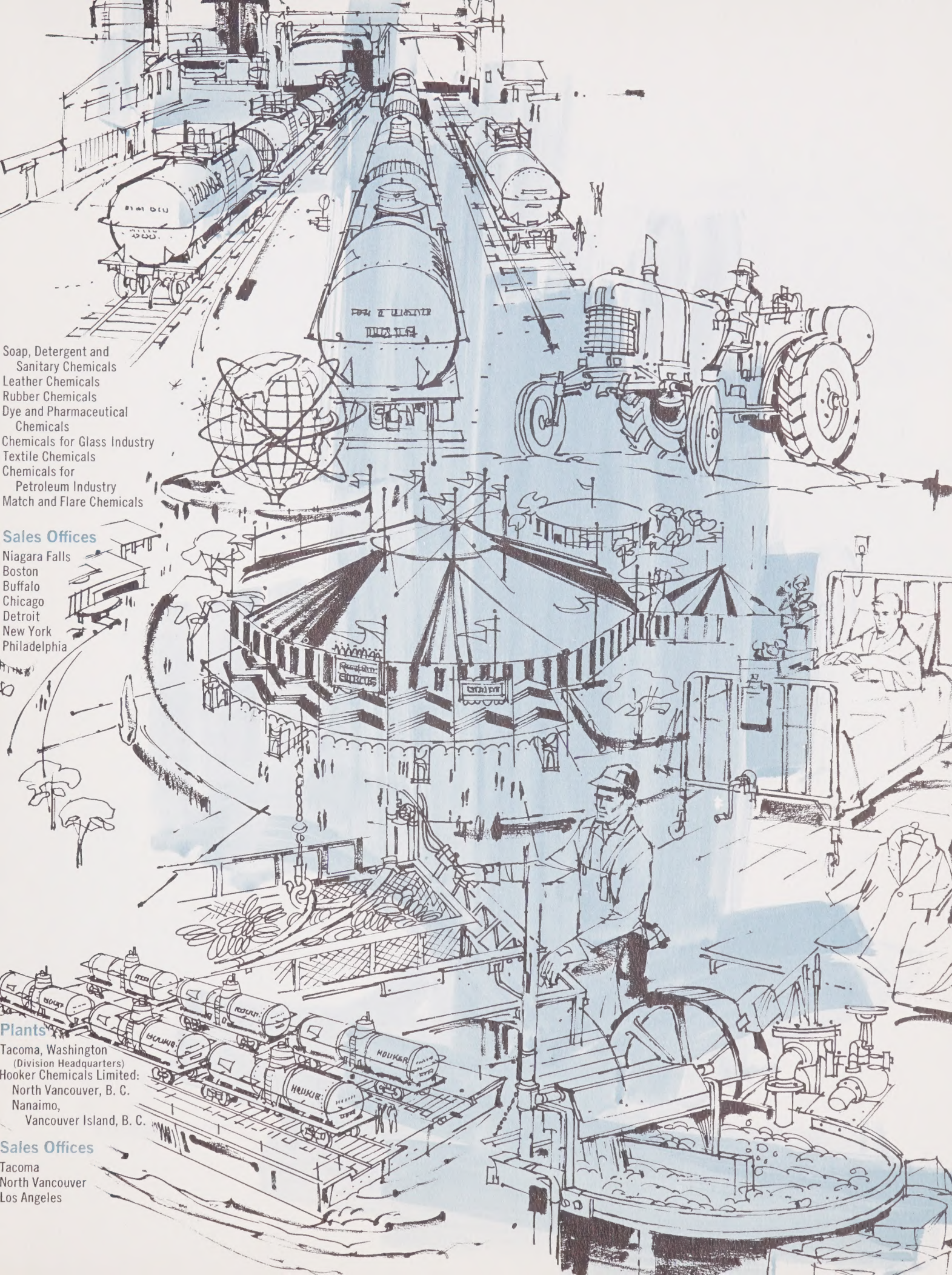
Plants

Niagara Falls, N. Y.
(Division Headquarters)
Columbus, Mississippi
Montague, Michigan

Western

Product Areas

Pulp and
Paper Chemicals
Industrial Inorganic
Chemicals
Metal Cleaning
Chemicals
Dry Cleaning Chemicals
Nitrogen Fertilizer
Chemicals



Soap, Detergent and
Sanitary Chemicals
Leather Chemicals
Rubber Chemicals
Dye and Pharmaceutical
Chemicals
Chemicals for Glass Industry
Textile Chemicals
Chemicals for
Petroleum Industry
Match and Flare Chemicals

Sales Offices

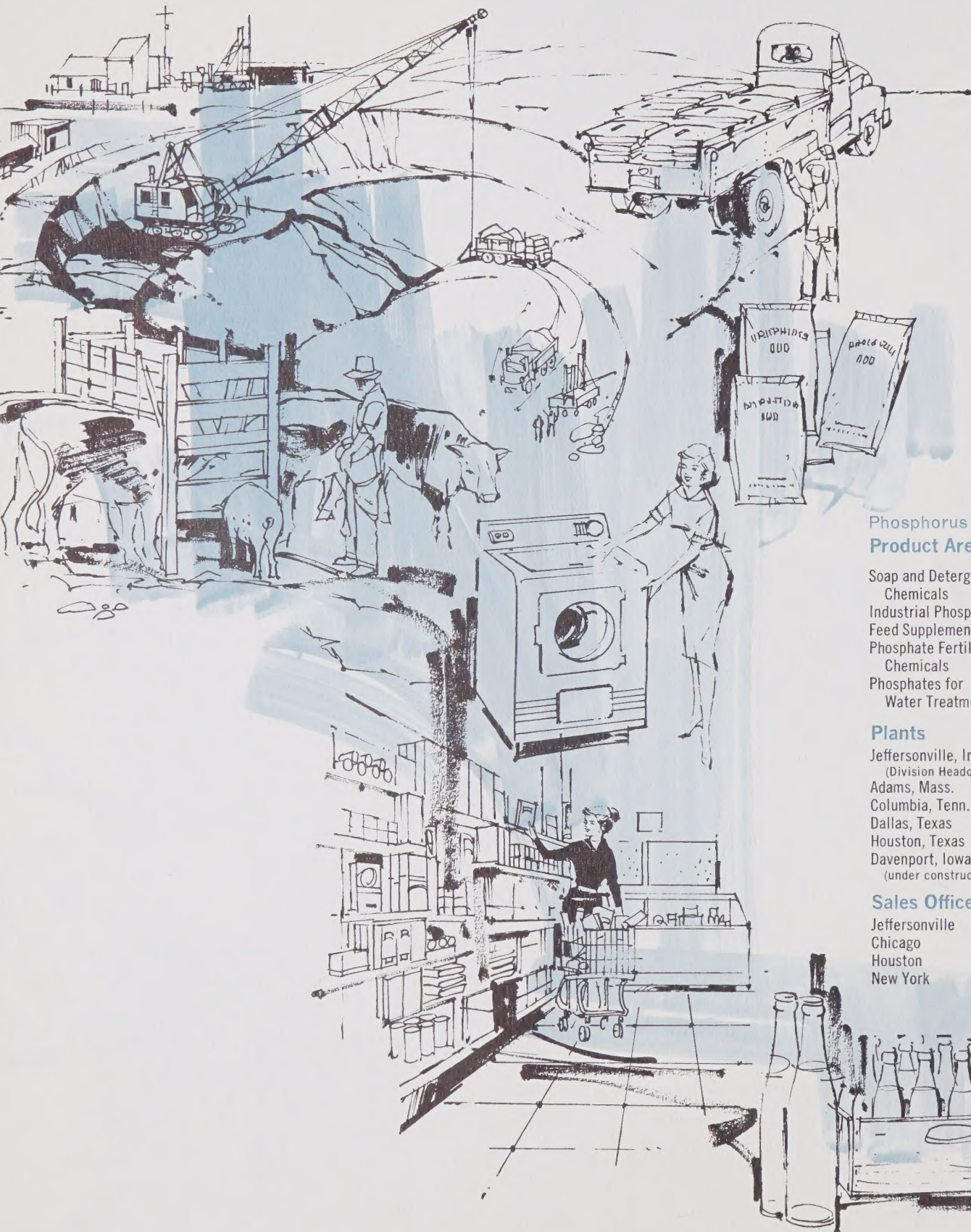
Niagara Falls
Boston
Buffalo
Chicago
Detroit
New York
Philadelphia

Plants

Tacoma, Washington
(Division Headquarters)
Hooker Chemicals Limited:
North Vancouver, B. C.
Nanaimo,
Vancouver Island, B. C.

Sales Offices

Tacoma
North Vancouver
Los Angeles



Phosphorus Product Areas

Soap and Detergent
Chemicals
Industrial Phosphates
Feed Supplements
Phosphate Fertilizer
Chemicals
Phosphates for
Water Treatment

Plants

Jeffersonville, Indiana
(Division Headquarters)
Adams, Mass.
Columbia, Tenn.
Dallas, Texas
Houston, Texas
Davenport, Iowa
(under construction)

Sales Offices

Jeffersonville
Chicago
Houston
New York



chemicals brought the opportunity to expand production capabilities. Following the expansion in late 1962 of our plant in North Vancouver, British Columbia, construction was started in the spring of 1963 on a new chlor-alkali plant on Vancouver Island near Nanaimo. This plant will be in operation during February of 1964. Our ability to serve our many important customers has been improved through the installation of new production facilities located in what will now be three major electrochemical plants in this area.

The division continues to emphasize a total service program to the pulp industry. Our record remains one of prompt and efficient delivery of chemicals to our customers' bleach plants. Of equal importance to our customers is our expanded technical service program, combining valuable studies in our Tacoma laboratory with in-the-bleach-plant technical service and engineering assistance.

The ammonia manufacturing facilities at Tacoma operated at capacity during 1963 and our marketing program to the agricultural industry of the Pacific Northwest, undertaken three years ago, has been gratifying in its results.

The demand for chlorinated solvents has remained at near-capacity level. Although an extremely competitive situation exists in the market for both trichloroethylene and perchloroethylene, we look forward to improved earnings on these products over the next few years.

Several major new-product lines for the division are currently under active evaluation. The expectation that these will become commercial realities, coupled with the enthusiasm we have for continued growth in the marketing of pulp-bleaching chemicals, results in an optimistic forecast of the future of the division. While the markets that we serve are highly competitive ones, the strong underlying growth factors continue to support this optimism.

Phosphorus Division

ROBERT F. SCHULTZ, *General Manager*

There was improvement in the operating performance and results achieved in the Phosphorus Division in 1963.

Sales were virtually unchanged, with decreases in prices in international markets virtually offsetting increases in domestic volume. Prices were more stable this year, in contrast to the steady erosion of selling prices most of our products experienced in the 1960-1962 period.

The operating problems, which accompanied the start-up of our third electric furnace and related equipment at Columbia, Tennessee in 1962, were substantially solved by midyear. The resulting increased phosphorus production and lower unit costs made possible a modest increase in earnings over 1962. An aggressive and continuing cost reduction program at all plants in the division also contributed to better earnings.

A study of the growing market for animal and poultry feed supplements resulted in the announced plan to build a plant near Davenport, Iowa. The new facility, which initially will produce dicalcium phosphate, is located on the



Durez

Product Areas

Phenolic Molding Compounds
 Phenolic Resins
 Foundry Resins
 Polyester Resins
 Polyurethane Foam Systems
 Ablative, Elastomeric,
 and High Temperature
 Resins and Plastics
 Diallyl Phthalate
 Molding Compounds

For

Bonding
 Foam Insulation
 Engineering Applications
 Structural Applications
 Molded Products
 Aerospace Applications

Plants

North Tonawanda, N. Y.
 (Division Headquarters)
 Kenton, Ohio
 South Shore, Kentucky

Sales Offices

North Tonawanda
 Chicago
 Dayton
 Detroit
 Los Angeles
 New York

Mississippi River and has convenient access by water, rail, and truck transportation to the growing midwest manufactured feeds industry. Ground was broken in early November and production is expected to begin in the second quarter of 1964. Its output will augment current feed supplement production at Houston, Texas and Columbia, Tennessee.

The second phosphoric acid plant in Dallas, Texas, approved in late 1962, was completed on schedule and was placed in operation during March, 1963. This new unit insures an adequate phosphoric acid supply for the foreseeable future.

There is every indication that division sales volume will increase substantially in 1964. Use of industrial phosphates in water softeners, detergents and cleaning compounds is expected to continue to grow. We do not expect the change to biodegradable detergents to alter materially the phosphate requirements of the growing detergent industry.

Although we expect a continued increase in a number of costs, the anticipated sales increase, combined with improved production costs and a continuing profit improvement effort, should enable the division to make a greater contribution to corporate earnings in 1964.

Durez Plastics Division

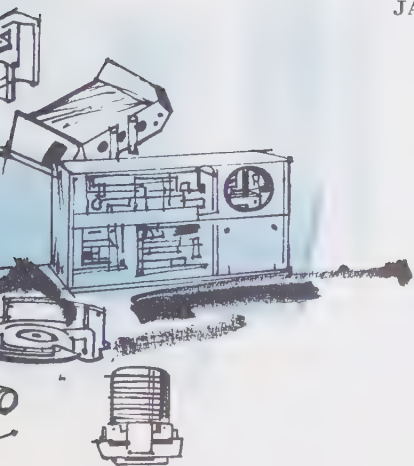
JAMES W. FERGUSON, *General Manager*

1963 was another good year for the Durez Plastics Division. Sales exceeded the record year of 1962 but, due to price weakness in some areas, earnings did not show an equivalent increase. All product lines contributed to the record sales; foundry resins were particularly strong, as were Hetron^(R) polyesters which are finding broad acceptance in corrosion-resistant production equipment and fire retardant molded products.

With business expected to continue at a high level, the division looks forward to even greater sales and earnings in 1964. Manufacturing facilities have been modified and expanded to increase capacity and to improve quality and service to customers. The warehouse additions at both the North Tonawanda and Kenton plants are completed and experience during the last half of 1963 has shown that this centralized warehousing program will provide improved customer service at an appreciable reduction in distribution costs. The new phenol plant at South Shore, Kentucky completed its first year of operation and strengthened our position in this important, basic raw material.

During the first year of marketing, the new polyol for rigid urethane foam, Hetrofoam,^(R) made very encouraging inroads into such important markets as construction, transportation and appliances. Outstanding insulation properties with inherent and permanent fire retardance make such rigid foams attractive for other applications which are being investigated.

Other product lines have been strengthened through the new and improved products developed by division and corporate technical groups. A few of the



more promising products are molding compounds for encapsulating purposes, diallyl phthalate compounds with exceptional dimensional stability and electrical properties, and several new foundry resins to meet the changing demands of this industry. These new products, coupled with other large potential applications, forecast continuing profitable growth for the division.

Additional manufacturing facilities are being planned to keep pace with increased demand for our products and to maintain our competitive position.

Parker Rust Proof Division

EDWARD B. THOMPSON, *General Manager*

In 1963 the Parker Rust Proof Division achieved new highs in both sales and earnings. This new record was made possible in part by the high production levels in the automotive and major appliance industries, but more importantly by the progress made in the divisional research effort and by improvements in our marketing programs.

During the year new laboratory facilities were completed in Detroit, giving Parker the most complete and modern technical facilities in the metal conversion-coating industry. With these facilities, our technical people have been able to develop the products and the processes needed to maintain and to improve our position in the market place, as well as to help our customers solve their technical problems more effectively.

The division has earned a strong market position in the conversion coating of metal surfaces by chemical treatment. A broad line of Parker treatments is now available to provide a permanent, adherent base for paint or other surface finish; to improve the wear characteristics of bearing surfaces; to protect against rust and corrosion; or to provide formability for cold forming operations. Finishes are available for treating ferrous and non-ferrous metals of all kinds or for treating combinations of various metals in the same process, at the same time. Parts or finished articles may be treated, or metal sheet and strip may be treated and painted for subsequent forming and fabrication into finished products. Our technical service to customers keeps Parker processes operating with complete reliability, and even extends to the design and construction of process equipment to apply Parker coatings.

During 1963 we enlarged our equipment shop facilities at Detroit to enable us to do a better job of producing this specialized equipment for our customers. In the marketing of cold-forming conversion coatings, technical service extends to the designing of dies and tooling. Parker's strong marketing position is based on the ability to provide these highly specialized metal treating processes, together with the technical service capability to assure that these processes will operate continuously and reliably in mass-production, automated processes.

With this marketing approach applied to both existing products and to the new products and processes emerging from our laboratories, we are confident we can meet increasingly competitive market conditions and make further progress in sales and earnings in 1964.



**Parker
Product Areas**

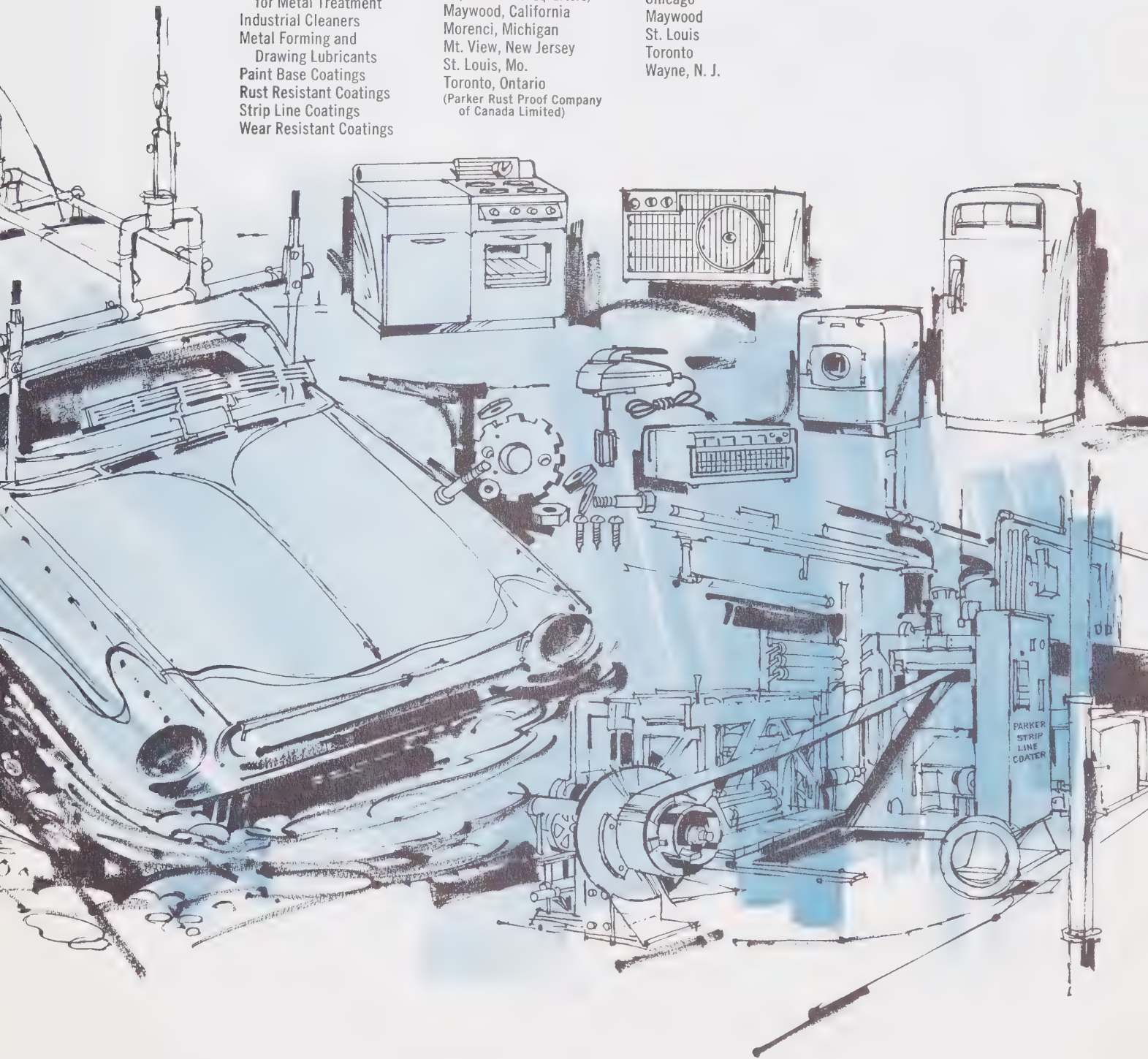
Conversion Coatings
for Metal Treatment
Industrial Cleaners
Metal Forming and
Drawing Lubricants
Paint Base Coatings
Rust Resistant Coatings
Strip Line Coatings
Wear Resistant Coatings

Plants

Detroit, Michigan
(Division Headquarters)
Maywood, California
Morenci, Michigan
Mt. View, New Jersey
St. Louis, Mo.
Toronto, Ontario
(Parker Rust Proof Company
of Canada Limited)

Sales Offices

Detroit
Chicago
Maywood
St. Louis
Toronto
Wayne, N. J.





● Export Sales Agencies □ Licensees ▲ Manufacturing Plants

International Division

WILLIAM D. MORRISON, *General Manager*

The International Division accelerated the introduction of Hooker's processes and products into expanding overseas markets. 1963 showed increases in sales, royalties and earnings.

A reorganized and expanded export sales department increased its direct customer contacts and added new sales agents overseas. By emphasizing our more profitable product lines, profits from export sales showed substantial improvement even in the face of increasing European tariffs and price erosion.

Sales of Hooker Mexicana S. A. de C. V. increased more than 10% over 1962, necessitating an expansion in phosphoric acid plant capacity. In October a new activated carbon plant was completed which will provide diversification of Mexican activities and increase 1964 sales. These plants are strategically located to share in the rapid development of the Latin American Free Trade Area.

The Duranor and Plasticos companies in Argentina, both 50% owned by Hooker, were combined into Duranor, S.A.I.C. to effect savings in operation. The new phenol plant at Rio Tercero was started up successfully in May. With a full year's production of phenol and expanded activity of the

International

Product Areas

The Division offers for export sale essentially every product made by the domestic divisions. In addition, it has manufacturing plants in the following countries:

Mexico

Hooker Mexicana, S. A. de C. V.
(Subsidiary), Lecheria

Products

Activated Carbon
Industrial Phosphates
Phosphoric Acid
Soap and Detergent Chemicals

Argentina

Duranor S.A.I.C.
(50% Owned), Rio Tercero and Buenos Aires

Products

Phenolic resins
Phenolic Molding Compounds
Urea Formaldehyde Resins
Vinyl Emulsions

Australia

Parker Bonderite Pty. Limited
(55% Owned), Melbourne

Products

All products of
the Parker Rust
Proof Division

Japan

Sumitomo — Durez K. K.
(25% Owned), Tokyo

Products

Phenolic Resins

phenolic resin and molding compound plant at Buenos Aires, Duranor is expected to show improvement over the modest profit made in 1963. It is anticipated that the depressed economic situation will improve following the recent elections in Argentina.

On January 1, 1963, Hooker acquired a 55% interest in Parker Bonderite Pty. Limited in Australia. By June of 1963, this completely reorganized company, staffed with personnel trained in the field of metal treatment and conversion coatings, had increased its sales 50% over those for the previous fiscal period.

In November, the Japanese government validated a joint venture, Sumitomo Durez K.K., 25% owned by Hooker and 75% by Sumitomo Bakelite Company, Ltd., a leading Japanese resin company. Sumitomo Durez will manufacture industrial phenolic resins at the Mukojima Plant of Sumitomo Bakelite, using technology from both Durez and Sumitomo Bakelite. It is expected to become one of the leading producers in the Far East, providing a base for other Hooker resin activity in Japan, and 1964 sales should total several million dollars.

Having obtained and established active participation in the Japanese, Australian, Mexican and Argentine markets, Hooker now is actively pursuing the establishment of an ownership interest in suitable ventures in order to participate directly in the European markets.

Three major royalty contracts were validated by the Japanese government in 1963, one for Parker Division products with Nihon Parkerizing K.K., and two with Mitsui Chemical Industry Co., Ltd., for plants using the Hooker phenol and bisphenol-A processes. New agreements were concluded with Parker licensees in Europe: Metallgesellschaft A.G. in Germany; Societe Continentale Parker in France, and The Pyrene Company Limited in England. Hooker's diaphragm chlorine cells were licensed to Solvay & Cie in France and Celulosa Argentina S. A.

Tropical Paint Company

FREDERICK J. KELLER, *General Manager*

The year for this subsidiary can best be described as one of reorganization and reorientation. The company has new general, technical, and sales management, all appointed within the year. An aggressive sales training program was begun in order to bolster our field sales organization.

The company looks forward to better technical service and to an improved product line broadened by the addition of urethane coatings and other specialty items. We expect profitable growth beginning in 1964.

HEF, Inc.

CHARLES R. GERNER, *General Manager*

During 1963 our HEF plant operated at full capacity and the decision was made to undertake a major expansion at the Columbus, Mississippi site.

It is expected that 1964 will be a year of transition for HEF in the ammonium perchlorate business. The new production facility, expected to be on stream this spring, will improve our efficiency and provide greater flexibility in meeting demands for varying grades of this material. With its completion, HEF will become a major supplier to the space and missile programs not only in the expanding southeast but in other marketing areas as well.

National Phosphate Corporation

As an integral part of our long-range planning in farm chemicals, the Company has agreed, subject to the receipt of a favorable tax ruling, to make an offer to the stockholders of National Phosphate Corporation to exchange 264,808 shares of Hooker common stock for about 90% of National's outstanding shares and options to acquire the remaining 10%.

To be operated as a subsidiary, National manufactures and sells ammonium phosphate fertilizers to the large and rapidly growing midwest market. Its manufacturing facilities, located on the Illinois River at Marseilles, Illinois, comprise a granulated diammonium phosphate plant with capacity in excess of 150,000 tons annually, two wet-process phosphoric acid plants, a sulfuric acid plant, and supporting storage units.

This acquisition will broaden our line of products for the farmer and afford future opportunities in phosphate chemicals.

Organizational Changes

The year saw a number of significant changes in the Hooker organization.

In March, F. Leonard Bryant was elected Chairman of the Board, succeeding Thomas E. Moffitt, who retired from active service after a distinguished career with the Company. Mr. Moffitt continues as a member of the Board of Directors while Mr. Bryant retains his responsibility as Chief Executive Officer of the Corporation.

Thomas F. Willers, Executive Vice President, was elected Hooker's eighth President, succeeding Mr. Bryant.

A number of changes took place on the Board of Directors. R. Lindley Murray and Frank W. Dennis retired from the Board in March. Special mention should be made of their invaluable contribution to Hooker during their long and outstanding careers. At their retirement, they had completed 43 and 44 years of active service, respectively. Also, Charles C. Hornbostel, Vice President—Finance, was elected a Director at the same meeting.

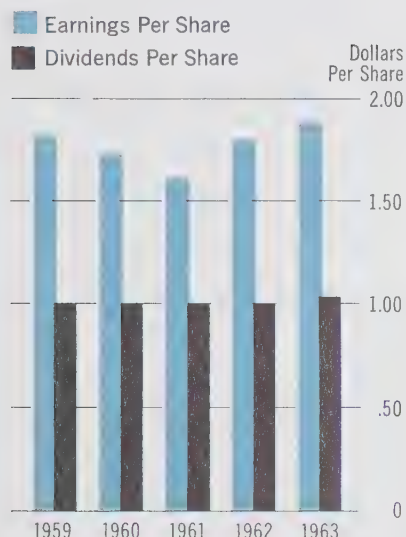
In February, Frederick J. Keller was appointed General Manager of Tropical Paint Company, a wholly-owned subsidiary, with headquarters in Cleveland, Ohio.

In October, Edward B. Thompson was appointed General Manager of the Parker Rust Proof Division, succeeding Robert W. Englehart, who continues as a Vice President and Director.

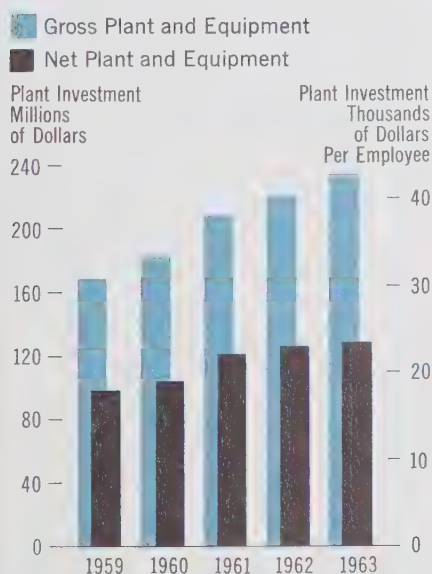
In December, 1963, Douglas McL. More was appointed General Counsel of the Corporation, succeeding Ansley Wilcox 2nd in this capacity.

Financial Review

Earnings and Dividends Per Share



Investment in Plant and Equipment



Sales and Earnings

Sales in 1963 were \$182,741,000, another new high for the Company. Net earnings in 1963 were \$15,865,000, also establishing a record both in total dollars and earnings per share. This was equal to \$1.88 per share after deducting the annual dividend requirement on the outstanding preferred stock. Comparable earnings in 1962 were \$1.79 per share.

| Quarter Ending | Sales | | Total Earnings | | Earnings per Share | |
|--------------------|---------------|-----------|----------------|----------|--------------------|--------|
| | 1963 | 1962 | 1963 | 1962 | 1963 | 1962 |
| | (000 Omitted) | | | | | |
| February | \$ 42,934 | \$ 42,622 | \$ 3,624 | \$ 3,451 | \$.43 | \$.41 |
| May | 48,299 | 47,541 | 4,395 | 4,140 | .52 | .49 |
| August | 44,820 | 43,873 | 3,806 | 3,763 | .45 | .44 |
| November | 46,688 | 45,140 | 4,040 | 3,712 | .48 | .45 |
| Total | \$182,741 | \$179,176 | \$15,865 | \$15,066 | \$1.88 | \$1.79 |

Note: Hooker Mexicana S. A. de C. V. (100% owned foreign subsidiary) is included in the consolidated figures for 1963 for the first time and is also included in the 1962 figures for comparative purposes.

Dividends

Regular quarterly dividends were paid on the \$4.25 cumulative preferred stock and the \$5.00 cumulative second preferred stock. Dividends paid on these issues of preferred stock amounted to \$434,000. Cash dividends totaling \$1.025 per share were paid on the common stock. The regular quarterly dividend was increased 10% in the last quarter, changing the rate from 25¢ per share to 27.5¢ per share. Total dividends paid on the common stock during the year amounted to \$8,419,000.

In addition, for the second consecutive year, the Board of Directors declared a 2% stock dividend to stockholders of record November 4, 1963, payable December 13, 1963.

Working Capital

Working capital at the end of the year amounted to \$58,719,000, up \$4,779,000 from a year ago. Payments on long term debt during the year amounted to \$2,958,000. A similar reduction is reflected in the long term debt on the balance sheet, since no additional borrowings were required. The following summarizes the major changes in working capital.

Funds Available:

(000 Omitted)

Net income for year \$15,865

Charges against income not affecting working capital:

Depreciation and amortization \$12,151

Deferred income taxes 4,040 16,191

Investment credit 464

Proceeds from sale of capital stock 467

\$33,129

Applied as follows:

Additions to plant and equipment 15,145

Dividends on capital stock 8,853

Reduction of long term debt 2,958

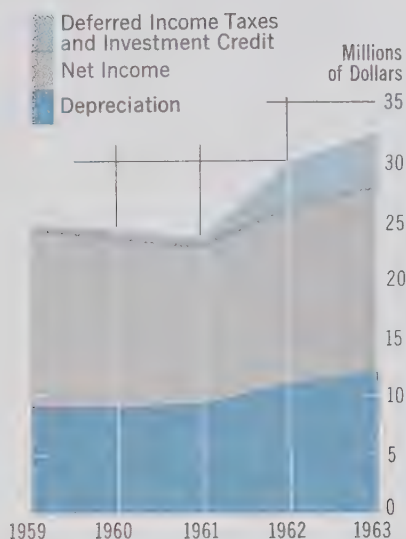
Purchase of Treasury Stock 727

Net increase in other assets 667

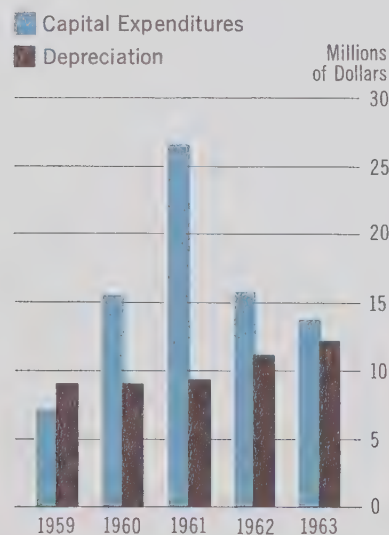
\$28,350

Increase in Working Capital \$ 4,779

Cash Flow



Capital Expenditures and Depreciation



Cash Flow

Total cash generated in 1963, consisting of net income, depreciation and amortization, deferred income taxes and investment credit amounted to \$32,662,000, or \$3.98 per share.

Taxes

Taxes continue to rise and like labor costs continue to take a larger portion of our sales dollar. Whether measured as total dollars or on a per share basis, the schedule below indicates that this item is at an all time high.

| | (000 Omitted) | |
|--|-----------------|-----------------|
| | 1963 | 1962 |
| Federal and Foreign Income Taxes | \$15,604 | \$14,955 |
| State Franchise and Income Taxes | 921 | 1,025 |
| Real and Personal Property Taxes | 1,916 | 1,773 |
| Payroll Taxes | 1,462 | 1,198 |
| Other | 245 | 132 |
| | <u>\$20,148</u> | <u>\$19,083</u> |
| Per Share | \$2.46 | \$2.32 |

Capital Expenditures

Expenditures for additions and improvements in plants and facilities for the year amounted to \$15,145,000. Depreciation for the year equaled \$12,151,000.

The major projects completed during the year or nearing completion by year end are covered under Review of Operations.

Research & Development

Research and Development expenditures for the year amounted to \$6,252,000, as compared with \$5,300,000 a year ago.

Capital Stock

During the year, 20,000 shares of our common stock were acquired and held as Treasury stock at the year end. The acquisition of this stock and subsequent purchases of additional stock were authorized by the Board of Directors, to be used for employee stock purchase programs, future acquisitions, and other corporate purposes.

Incentive Compensation

The stockholders, at the last annual meeting, approved an incentive compensation program based upon an earnings formula. As a result of this program the Incentive Compensation Committee, consisting of outside directors with no right of participation, directed that the Company set aside from current years earnings the full amount allowable under the plan. As a result of this action, \$468,494 has been charged to income during the current year and reserved for future incentive awards. Awards for the current year were made in January, 1964.

Consolidated Statement of Income *Year ended November 30, 1963 and 1962*

| | 1963 | 1962 |
|--|---------------|---------------|
| | | (Note 1) |
| Net sales | \$182,740,881 | \$179,176,000 |
| Cost of sales | 115,132,204 | 115,626,979 |
| Selling, general and administrative expenses | 23,395,788 | 21,227,420 |
| Depreciation and amortization | 12,150,988 | 11,261,263 |
| | 150,678,980 | 148,115,662 |
| Operating income | 32,061,901 | 31,060,338 |
| Other income: | | |
| Royalties and license fees | 973,080 | 720,461 |
| Interest income | 609,414 | 561,437 |
| Miscellaneous | 237,766 | 218,305 |
| | 1,820,260 | 1,500,203 |
| | 33,882,161 | 32,560,541 |
| Interest and debt expense | 2,413,302 | 2,539,310 |
| Income before provision for income taxes | 31,468,859 | 30,021,231 |
| Provision for federal and foreign income taxes (including deferred taxes relating to accelerated depreciation: 1963—\$4,040,000; 1962—\$3,219,000) | 15,604,000 | 14,955,000 |
| Net income | \$ 15,864,859 | \$ 15,066,231 |

See accompanying notes.

Consolidated Balance Sheet *November 30, 1963 and 1962*

| | 1963 | 1962 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | (Note 1) |
| Cash | \$ 11,415,841 | \$ 10,508,992 |
| U. S. Government and other marketable securities, at cost which approximates market | 14,973,278 | 13,699,551 |
| Accounts receivable | 25,563,522 | 24,792,746 |
| Inventories, at the lower of cost or market (cost being average or first-in, first-out): | | |
| Finished products and materials in process | 16,506,390 | 14,375,843 |
| Raw materials and supplies | 12,644,466 | 12,675,290 |
| Prepaid expenses | 1,655,173 | 1,791,604 |
| Total current assets | 82,758,670 | 77,844,026 |
| Investments and other assets, at cost (Note 1) | 2,890,141 | 2,424,342 |
| Fixed assets, at cost: | | |
| Land | 2,836,234 | 2,780,076 |
| Buildings | 55,226,995 | 50,519,490 |
| Machinery and equipment | 165,902,308 | 162,712,928 |
| Mineral rights | 1,168,192 | 1,103,793 |
| Construction in progress | 8,329,365 | 3,861,522 |
| | 233,463,094 | 220,977,809 |
| Less accumulated depreciation and amortization | 105,155,376 | 94,347,242 |
| | 128,307,718 | 126,630,567 |
| Goodwill and patents, at nominal value | 1 | 1 |
| Deferred charges | 2,968,042 | 2,057,144 |
| | <u>\$216,924,572</u> | <u>\$208,956,080</u> |

See accompanying notes.

Liabilities and Shareholders' Equity

Current liabilities:

| | 1963 | 1962 |
|--|---------------|---------------|
| Accounts payable and accrued liabilities | \$ 13,111,357 | \$ 12,908,810 |
| Dividends payable on preferred stock | 108,506 | 108,506 |
| Federal, state and other taxes | 7,939,727 | 8,006,755 |
| Current maturities on long term debt | 2,880,000 | 2,880,000 |
| Total current liabilities | 24,039,590 | 23,904,071 |

| | | |
|-----------------------------------|------------|------------|
| Long term debt (Note 2) | 52,108,419 | 55,066,672 |
|-----------------------------------|------------|------------|

| | | |
|---------------------------------|------------|-----------|
| Deferred income taxes | 13,893,080 | 9,853,080 |
|---------------------------------|------------|-----------|

Shareholders' equity:

| | | |
|---|-----------|-----------|
| \$4.25 cumulative preferred stock, without par value: | | |
| Authorized and issued—50,000 shares | 5,000,000 | 5,000,000 |
| Cumulative preferred stock, without par value: | | |
| Authorized: 250,000 shares issuable in series | | |
| Issued: \$5 cumulative second preferred, series C: | | |
| 44,305 shares | 4,430,500 | 4,430,500 |

Common stock, \$5 par value (Notes 3 and 4):

| | | |
|---|------------|------------|
| Authorized: 10,000,000 shares | | |
| Issued: 1963—8,226,353 shares; 1962—8,047,672 shares | 41,131,765 | 40,238,360 |
| To be issued as 2% stock dividend: 1963—164,122 shares; 1962—160,932 shares | 820,610 | 804,660 |

| | | |
|-----------------------------------|-----------|-----------|
| Capital surplus paid-in | 9,762,053 | 4,460,298 |
|-----------------------------------|-----------|-----------|

| | | |
|-----------------------------------|------------|------------|
| Earned surplus (Note 2) | 66,465,955 | 65,198,439 |
|-----------------------------------|------------|------------|

| | | |
|--|-------------|-------------|
| | 127,610,883 | 120,132,257 |
|--|-------------|-------------|

| | | |
|--|---------|---|
| Less cost of 20,000 shares of common stock in treasury | 727,400 | — |
|--|---------|---|

| | | |
|--------------------------------------|-------------|-------------|
| Total shareholders' equity | 126,883,483 | 120,132,257 |
|--------------------------------------|-------------|-------------|

Lease commitments (Note 6)

| | | |
|--|---------------|---------------|
| | \$216,924,572 | \$208,956,080 |
|--|---------------|---------------|

See accompanying notes.

Consolidated Statements of Surplus *Year ended November 30, 1963*

| | <i>Earned surplus</i> | <i>Capital surplus paid-in</i> |
|--|-----------------------|------------------------------------|
| Balances, November 30, 1962, as previously reported | \$65,585,072 | \$4,460,298 |
| Deduct deficit of foreign subsidiaries other than Canadian, not previously included in consolidation (Note 1) | 386,633 | |
| Balances, November 30, 1962, as restated | 65,198,439 | 4,460,298 |
| Add: | | |
| Net income | 15,864,859 | |
| Excess of proceeds over par value of shares issued | | 378,095 |
| Excess of market value over par value of shares to be issued for 2% stock dividend | | 4,923,660 |
| | 81,063,298 | 9,762,053 |
| Deduct: | | |
| Cash dividends: | | |
| Common stock — \$1.025 per share | 8,419,048 | |
| Preferred stock | 434,025 | |
| Stock dividend — 2% | 5,744,270 | |
| | 14,597,343 | |
| Balances, November 30, 1963 (Note 2) | \$66,465,955 | \$9,762,053 |

See accompanying notes.

Notes to Consolidated Financial Statements *November 30, 1963*

1. Principles of consolidation

The consolidated financial statements include the accounts of all domestic, Canadian and, for the first time, other wholly-owned foreign subsidiaries. For comparative purposes, the financial statements for 1962 have been restated to include the foreign subsidiaries not previously included in consolidation. This had no material effect on consoli-

dated financial position and results of operations.

Investments and other assets include \$1,766,408 representing cost of investments in two non-wholly-owned foreign affiliates. No dividends were received from these affiliates in 1963 and, on the basis of unaudited statements, the Company's equity in the net assets of such affiliates approximated its investment cost.

2. Long term debt

Long term debt and current maturities thereof at November 30, 1963 follow:

| | <i>Current</i> | <i>Long term</i> |
|--|----------------|------------------|
| 5% convertible subordinated debentures, due 1984; annual sinking fund payments of \$1,000,000 commence 1969, \$1,500,000 in 1979 | \$ — | \$24,444,800 |
| 3¾% unsecured notes, due 1977; annual installments — \$800,000 | 800,000 | 13,600,000 |
| 3⅝% unsecured notes, due 1980; annual installments — \$400,000 | 400,000 | 8,000,000 |
| 4¼% unsecured notes, due 1966; semi-annual installments — \$600,000 | 1,200,000 | 1,800,000 |
| 3½% sinking fund debentures, due 1974; annual installments — \$260,000 | 260,000 | 2,700,000 |
| 3% sinking fund debentures, due 1967; annual installments — \$220,000 | 220,000 | 700,000 |
| Non-interest bearing notes of subsidiary payable in installments based on operations of such subsidiary | — | 863,619 |
| | \$2,880,000 | \$52,108,419 |

At November 30, 1963, approximately \$34,000,000 of earned surplus was not available for the payment of cash dividends on common stock under the most restrictive of the provisions relating to such payments in the Company's indentures, loan agreements and certificate of incorporation.

3. Common Stock

At November 30, 1963, 569,411 shares of common stock were reserved for conversion of the 5% convertible subordinated debentures at \$42.93 per share.

Subject to certain specified conditions, the Company has agreed to exchange 264,808 shares of its common stock for approximately 90% of the common stock of National Phosphate Corporation and options to acquire the remaining 10% at different times by December 31, 1969.

4. Stock option and stock purchase plans

Details of options and elections at November 30, 1963 and transactions during the year follow:

| | Shares | |
|--|----------------|------------------|
| | Option plan | Purchase plan |
| Outstanding, November 30, 1962 . . . | 127,649 | 13,254 |
| Changes during the year: | | |
| Granted | 15,330 | — |
| Exercised and purchased (proceeds — \$466,840) | (13,313) | (4,436) |
| Expired or cancelled | (5,202) | (965) |
| | <u>(3,185)</u> | <u>(5,401)</u> |
| Outstanding, November 30, 1963, of which options for 71,360 shares were then exercisable | <u>124,464</u> | <u>7,853</u> |

Options are exercisable generally in five equal annual installments and expire in 1966. Options outstanding for 124,464 shares were granted at prices ranging from \$22.84 to \$38.70 per share, not less than 95% of market price on dates of grant. At November 30, 1962 and 1963, 130,300 shares and 120,172 shares, respectively, were reserved for future grants under the stock option plan for officers and key employees.

The purchase price of elections outstanding at November 30, 1963 was \$31.00 per share, not less than 85% of market price on dates of election. Election to purchase may be cancelled by the participants prior to issuance of the shares. At November 30, 1962 and 1963, 264,852 shares and 265,817 shares, respectively, were reserved for future grants under the stock purchase plan for employees.

The foregoing information with respect to shares and share prices gives effect, to the extent applicable, to the 2% stock dividend payable December 13, 1963.

5. Retirement program

The Company has a retirement program under which benefits for eligible employees are being funded through insurance contracts and a trust established under the program. The annual cost of the program is approximately \$2,400,000, and at November 30, 1963, as determined on the basis of actuarial assumptions, the program is substantially fully funded with respect to all vested interests.

6. Lease commitments

Annual rentals under tank car leases approximate \$1,800,000. A lease agreement covering phosphate and other mineral properties, which expires in 1981, provides for minimum annual royalties of \$635,000 or royalties based on production, whichever is greater. The lease also requires the payment of real estate taxes and other expenses.

Report of Certified Public Accountants

The Board of Directors and Shareholders
Hooker Chemical Corporation

We have examined the accompanying consolidated balance sheet of Hooker Chemical Corporation and consolidated subsidiaries at November 30, 1963 and the related consolidated statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Hooker Chemical Corporation and consolidated subsidiaries at November 30, 1963 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
December 23, 1963

Arthur Young & Company

Ten Year Comparative Financial Summary

| | 1963 | 1962 | 1961 |
|---|-----------|------------|-----------|
| <i>(Year Ended November 30)</i> | | | |
| Net sales | \$182,741 | \$179,176 | \$162,086 |
| Income before income taxes | 31,469 | 30,021 | 26,372 |
| Federal and foreign income taxes | 15,604 | 14,955 | 12,864 |
| Net income | 15,865 | 15,066 | 13,508 |
| Net income — per share of common stock | 1.88 | 1.79* | 1.63 |
| Dividends per common share declared by Hooker: | | | |
| Cash | 1.025 | 1.00 | 1.00 |
| Stock | 2% | 2% | — |
| Income retained for future growth | 7,012 | 6,144 | 4,630 |
| <i>(As of November 30)</i> | | | |
| Working capital | \$ 58,719 | \$ 53,940 | \$ 51,110 |
| Gross plant and equipment | 233,463 | 220,978 | 206,511 |
| Less: accumulated depreciation and amortization | 105,155 | 94,347 | 86,116 |
| Net plant | 128,308 | 126,631 | 120,395 |
| Other assets | 5,858 | 4,481 | 6,415 |
| Long term debt | 52,108 | 55,067 | 57,005 |
| Deferred income taxes | 13,893 | 9,853 | 6,634 |
| Shareholders' equity | 126,883 | 120,132 | 114,281 |
| Common shares outstanding, adjusted to give effect to stock split, stock conversions and consolidations | 8,206,353 | 8,208,604* | 8,023,208 |
| Book value per share of common stock | \$14.31 | \$13.49 | \$13.08 |
| Capital expenditures | 15,145 | 15,812 | 26,666 |
| Depreciation and amortization | 12,151 | 11,261 | 9,253 |
| Number of shareholders (common) | 14,550 | 15,434 | 17,529 |
| Number of employees | 5,517 | 5,437 | 5,324 |

* Reflects the 2% stock dividend declared October, 1962 and paid December, 1962.

Note: Statement of Income and Balance Sheet items, expressed above in thousands of dollars, combine for all years the applicable information for companies consolidated into the Corporation during 1955, 1956, 1958 and 1962. The operations of Hooker Mexicana S.A. de C.V. and other wholly-owned Mexican subsidiaries are included for the first time, but only for 1962 and 1963. The exclusion of these subsidiaries for years prior to 1962 has no material effect on the information shown for those years.

CHEMICAL
CORPORATION AND CONSOLIDATED SUBSIDIARIES

| 1960 | 1959 | 1958 | 1957 | 1956 | 1955 | 1954 |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| \$162,936 | \$162,560 | \$136,046 | \$140,593 | \$132,822 | \$125,146 | \$103,210 |
| 28,701 | 30,536 | 22,462 | 25,332 | 28,042 | 27,581 | 21,334 |
| 14,296 | 15,374 | 10,724 | 12,383 | 13,742 | 13,910 | 11,223 |
| 14,405 | 15,162 | 11,738 | 12,949 | 14,300 | 13,671 | 10,111 |
| 1.75 | 1.85 | 1.42 | 1.58 | 1.75 | 1.67 | 1.17 |
| 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | .95 | .70 |
| — | — | — | — | — | — | — |
| 5,550 | 6,333 | 3,568 | 4,987 | 5,512 | 6,284 | 3,750 |
| \$ 65,039 | \$ 67,084 | \$ 38,511 | \$ 35,485 | \$ 35,539 | \$ 35,669 | \$ 28,622 |
| 181,210 | 168,670 | 162,556 | 155,993 | 140,509 | 122,971 | 113,318 |
| 77,940 | 71,165 | 62,894 | 56,015 | 49,664 | 43,334 | 37,911 |
| 103,270 | 97,505 | 99,662 | 99,978 | 90,845 | 79,637 | 75,407 |
| 5,852 | 5,403 | 2,275 | 2,322 | 2,505 | 2,265 | 2,495 |
| 59,685 | 62,165 | 40,500 | 42,395 | 39,906 | 36,040 | 31,630 |
| 5,763 | 4,894 | 4,274 | 3,290 | 1,943 | 1,091 | 436 |
| 108,713 | 102,933 | 95,674 | 92,100 | 87,040 | 80,440 | 74,458 |
| 7,993,355 | 7,981,962 | 7,949,873 | 7,947,559 | 7,944,998 | 7,942,969 | 7,942,969 |
| \$12.43 | \$11.73 | \$10.86 | \$10.42 | \$9.79 | \$8.96 | \$7.06 |
| 15,516 | 7,270 | 8,225 | 17,125 | 19,083 | 11,329 | 17,401 |
| 9,092 | 9,108 | 8,359 | 7,865 | 7,365 | 6,764 | 5,909 |
| 18,375 | 18,151 | 16,686 | 16,085 | 14,269 | 13,096 | 11,955 |
| 5,428 | 5,284 | 5,023 | 5,285 | 5,452 | 5,198 | 4,787 |



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